

SUTTER COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2008

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December 30, 2008

TO COUNTY ASSESSORS:

RAMON J. HIRSIG
Executive Director
No. 2008/077

SUTTER COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Sutter County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (Board) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the Board shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Michael V. Strong, Sutter County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, the Legislature, and to the Sutter County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from July through August 2007. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Strong and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum funding level, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board's findings in its current survey of the Sutter County Assessor's Office.¹

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, and the Senate and Assembly; and to the Sutter County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Michael V. Strong, Sutter County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

¹ This report covers only the assessment functions of this office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code² section 75.60, the Board determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Sutter County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Sutter County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.³

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

³ All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our 2003 Sutter County Assessment Practices Survey, we made six recommendations to address problems in the assessor's policies and procedures. The assessor fully implemented three of the recommended changes. Two recommendations no longer apply, one because of a change in Board guidance, the other due to change in legislation. The one recommendation that was not implemented is repeated in this report.

In our fieldwork for the current survey, we noted several program improvements. The assessor incorporated property characteristics for single-family residences into his computer database, developed an electronic appraisal record database, initiated a direct billing program for business personal property, developed a Web site with emphasis on assessment data and tax bill information for the public, coordinated the receipt of recorded documents electronically from the recorder's office, and initiated a program to analyze and process recorded documents within two days of recording. The assessor also upgraded computers, scanners, printers, and work stations to improve work efficiency.

Generally, the assessor has effective programs in the area of administration and real property assessment. The assessor's programs for processing changes in ownership, new construction, leasehold improvements, water company properties, and mineral properties conform to statutory provisions. However, the area of greatest concern is the assessor's program for assessing taxable possessory interests. Specifically, the assessor must discontinue supplemental assessments on taxable possessory interests created by month-to-month agreements.

The assessor has effective programs for business property assessment, discovery of leased equipment, and discovery and valuation of aircraft and vessels.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

Overall, we found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Sutter County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Sutter County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling.

Following is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1: Establish base year values for taxable government-owned properties according to Board guidelines.26

RECOMMENDATION 2:	In accordance with section 75.5, exclude from supplemental assessment taxable possessory interests created by month-to-month agreements having a full cash value of \$50,000 or less.	27
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RESULTS OF THE 2003 SURVEY

Low-Value Property Tax Exemption

We recommended the assessor apply the low-value property tax exemption only to qualifying properties. The assessor has implemented this recommendation.

Assessment Roll Changes

We recommended the assessor correctly identify penalty and escape assessments on the current assessment roll, as required by section 533 and Rule 261. Section 533, amended by chapter 200 of the Statutes of 2004, effective January 1, 2005, no longer requires that specific notations be made on the roll when making roll corrections for escape assessments. In addition, we found the assessor is now in full compliance with the requirements of Rule 261.

Change In Ownership

We recommended the assessor apply the section 482 penalty when a *Change of Ownership Statement* is not returned timely. The assessor has implemented this recommendation.

Taxable Government-Owned Properties

We recommended the assessor establish base year values for taxable government-owned properties according to Board guidelines. The assessor has not implemented this recommendation; thus, it is repeated in this report.

Water Company Properties

We recommended the assessor obtain lists of tested water sites from public agencies to discover assessable property. The assessor has implemented this recommendation.

Business Equipment Valuation

We recommended the assessor use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended, when valuing older machinery and equipment. The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association. Because of a change in Board policy, this recommendation is no longer applicable.

OVERVIEW OF SUTTER COUNTY

Sutter County is located along the Sacramento River in California's Central Valley, approximately 40 miles north of the state capital in Sacramento. The county encompasses about 609 square miles. Sutter County is bordered by the counties of Sacramento and Yolo to the south, Yuba to the east, Colusa to the west, Butte to the north, and Placer to the southeast.

Sutter County was incorporated by the California State Legislature on February 18, 1850, as one of the state's original 27 counties. Yuba City was established as the county seat. Currently, Sutter County has an estimated population of 93,142. There are two incorporated cities: Yuba City and Live Oak.⁴ The major industries in Sutter County are agriculture and agricultural-related businesses.

⁴ Data taken from California Department of Finance Finance and Economic Data – California County Profiles as of 1/1/06.

The following table displays information pertinent to the 2007-08 assessment roll as provided by the assessor:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	24,248	\$4,463,439,282
	Commercial/Industrial	1,686	\$1,300,073,459
	Agricultural	6,327	\$1,635,598,626
	Manufactured Homes	819	\$30,976,842
	Other Secured	604	\$208,025,091
	Total Secured	34,684	\$7,638,113,300
Unsecured Roll	Personal Property & Fixtures	12,442	\$513,228,894
	Total Assessment Roll	46,126	\$8,151,342,194

The next table illustrates the growth in assessed values for recent years as reported in the Board's Annual Reports:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2007-08	\$8,295,944,000	9.4%	9.6%
2006-07	\$7,583,110,000	17.6%	12.3%
2005-06	\$6,447,411,000	12.8%	11.1%
2004-05	\$5,715,503,000	9.2%	8.3%
2003-04	\$5,232,132,000	NA	NA

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, assessment appeals, disaster relief, assessment roll changes, exemptions, the racehorse administrative tax, assessment forms, and other administrative issues.

Budget and Staffing

As shown in the following table, the assessor's office has experienced increasing budget levels over recent years:

BUDGET YEAR	NET BUDGET	INCREASE	PERMANENT STAFF
2007-08	\$2,521,093	7.45%	24.0
2006-07	\$2,346,249	7.15%	24.0
2005-06	\$2,189,680	2.21%	24.0
2004-05	\$2,142,247	17.00%	24.0
2003-04	\$1,831,146	NA	20.5

Staffing for the assessor's office has remained relatively constant over recent years. Staff consists of the assessor, the assistant assessor, the chief appraiser, three auditor-appraisers, six real property appraisers, one appraisal aide, one mapping technician, the office manager, and nine assessment technicians.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the Board. There are a total of 13 certified appraisers on staff, including the assessor; 11 hold advanced certificates. Additionally, the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d).

In Sutter County, the assistant assessor is responsible for tracking training hours for each appraiser. The assessor arranges for his employees to attend a variety of training opportunities, including Board classes and seminars, in-house training, and training by outside organizations. The assessor uses the services of one contract appraiser for the valuation of mineral properties, who possesses a valid certificate issued by the Board.

We found no problems with the assessor's program for appraiser certification and training.

Staff Properties and Other Procedures

In Sutter County, the assessor does not have written policies or procedures to provide guidance in the valuation of employee-owned property. The assessor becomes aware of employee-owned property from either voluntary disclosure by the employee or from name recognition on permits and deeds.

Appraisals of employee-owned properties are handled in the same manner as all other real property. The appraiser for the geographical area in which the property is located is responsible for its valuation, unless he or she is the owner; which, in that case, the property is reassigned to another appraiser. When the appraisal is completed, it is reviewed by either the chief appraiser or the assistant assessor. This ensures that all employee-owned properties are being properly assessed. We reviewed a number of employee-owned property appraisal files and found no problems with their valuation.

The assessor uses the services of a contract appraiser to appraise all mineral properties located in Sutter County. The contract appraiser is a registered professional geologist, experienced in the field of geology and petroleum engineering and knowledgeable in the appraisal and assessment of oil and gas wells and minerals. The contract appraiser possesses the necessary appraiser certification issued by the Board. We reviewed the contract and found that it conforms to the requirements of section 674.

The assessor participated in the State-County Property Tax Administration Program (PTAP) from fiscal year 1998-99 until the program was suspended for fiscal year 2005-06. Though the assessor is no longer receiving any new PTAP funding, the assessor has a carry-over of funds from previous years. The assessor is using these funds for upgrades to the existing computer system.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

In Sutter County, there is one assessment appeals board to hear all assessment appeals. The appeals board hears cases for changes in value affecting properties on both the secured and unsecured assessment rolls. The appeals board has three regular members and two alternates. All members appointed in 2001 or later have completed the assessment appeals training as required by section 1624.01. Sutter County does not use the services of hearing officers to resolve appeals. The regular annual filing period for an assessment appeal application in Sutter County is July 2nd through September 15th.

All applications for changed assessment are filed with the deputy clerk of the board of supervisors. The clerk date-stamps the applications, assigns an appeal number for tracking, and reviews all applications to ensure that they are complete and contain all required information. A

copy of the application is then forwarded to the assessor's office, where it is reviewed by the assistant assessor and then assigned to the appraiser who performed the original appraisal on the property.

The appraiser next reviews the file. If there are valid concerns, the appraiser contacts the taxpayer to attempt to resolve the appeal. If an agreement cannot be reached, the appeals process continues and a hearing is scheduled. For real property appeals, the appraiser prepares and presents the case at the hearing, accompanied by either the assistant assessor or chief appraiser. For appeals involving business property, the case is prepared and presented by an auditor-appraiser, accompanied by the chief appraiser.

Both the deputy clerk of the board and the assessor track the progress of assessment appeals to ensure that they are resolved within the two-year time limit. Since the initiation of this tracking system, no appeal has gone unresolved for more than two years, unless the taxpayer signed a waiver of the statute of limitations as provided in Rule 309(b).

The following table illustrates the appeal workload for recent years:

APPEALS	2006-07	2005-06	2004-05	2003-04	2002-03
Total Appeals:					
Applications Received	83	66	54	97	94
Carried Over	33	14	14	21	0
Total	116	80	68	118	94
Resolution:					
Denied-lack of appearance	0	5	11	41	16
Hearing-reduced	2	8	3	8	0
Hearing-upheld	7	8	5	11	27
Invalid	0	4	0	0	1
Stipulation	7	2	14	6	7
Withdrawn	25	20	13	38	22
Total	41	47	46	104	73
Carried over to next year	75	33	14*	14	21
*Number reported by the assessor.					

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition,

section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assesseees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity; the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Sutter County Board of Supervisors last updated the county's disaster relief ordinance on February 26, 2002, to conform to amendments to section 170 that became effective as of January 1, 2002. The ordinance applies to any taxable property, both real and personal, damaged by misfortune or calamity, where the amount of damage equals or exceeds \$10,000. In addition, the ordinance allows the assessor to initiate reassessment for disaster relief even if an application has not been filed by the taxpayer.

The following table shows the number of claims processed by the assessor in recent years:

ROLL YEAR	CLAIMS
2006-07	18
2005-06	23
2004-05	14
2003-04	20
2002-03	27

The assessor discovers instances of disaster or calamity by reviewing newspaper articles and building permits, field canvassing, and through taxpayer-initiated contacts. The assessor also attempts to obtain fire reports from the various agencies throughout the county.

Upon the discovery of a disaster or calamity, the assessor mails an application with a cover letter to the property owner. Returned applications are date-stamped, logged for tracking, and assigned to the appraiser responsible for that geographical area.

We found the assessor reassessed property for disaster relief in compliance with section 170 and that his disaster relief program conforms to the current provisions of section 170.

Assessment Roll Changes

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. In Sutter County, once the roll is delivered to the auditor, any correction that would decrease the amount of unpaid taxes is approved by the county counsel. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes processed by the assessor over recent years:

ROLL YEAR	ROLL CHANGES
2006-07	405
2005-06	713
2004-05	427
2003-04	469
2002-03	446

In Sutter County, roll changes are initiated by an appraiser. All roll correction documents are reviewed by the assistant assessor, chief appraiser, or office manager before they are forwarded to the office staff for processing.

For escape assessments, a *Notice of Proposed Escape Assessment* is mailed to taxpayers at least ten days before changes are entered onto the roll in accordance with section 531.8. After the ten days has passed, the values are then enrolled and transmitted to the county auditor-controller for billing, and notification of the enrollment of an escaped assessment is mailed to the taxpayer.

Section 534(b) provides that an escape assessment is effective only after the assessee has been properly notified. In Sutter County, the assessor uses form BOE-66-A, *Notice of Enrollment of Escape Assessment*, to notify taxpayers of the enrollment of an escape assessment.

We have no recommendations in this area.

Low-Value Property Tax Exemption

Section 155.20 authorizes a county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property tax exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

The Sutter County Board of Supervisors adopted Resolution 96-15 on February 27, 1996, authorizing the exemption of all real property with a base year value and personal property with a full value of \$3,000 or less.

The following table summarizes the number of parcels that qualify for, and the amount of assessed value exempt by, the low-value property tax exemption for recent years:

ROLL YEAR	EXEMPTED PROPERTIES	ASSESSED VALUE
2007-08	232	\$333,988
2006-07	236	\$331,095
2005-06	244	\$329,443
2004-05	247	\$328,570

We examined a number of properties and business assessments where the assessor applied the low-value property tax exemption. We found the assessor correctly enrolled all low-valued assessments and properly applied the low-value property tax exemption only when the full value of the entire appraisal unit was \$3,000 or less. Since the county has not adopted a resolution or ordinance allowing the exemption of small escape or supplemental assessments, the assessor properly enrolls these assessments.

We found no problem with the assessor's low-value property tax exemption program.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The assessor processed 86 church exemption claims and one religious exemption claim for the 2007-08 assessment roll.

The following table shows the number of properties and the amount of assessed value exempt under the religious and church exemptions for recent years:

ROLL YEAR	RELIGIOUS	VALUE	CHURCH	VALUE
2007-08	1	\$102,482	86	\$52,861,248
2006-07	4	\$273,347	86	\$49,753,643
2005-06	1	\$98,496	91	\$47,442,897
2004-05	1	\$96,564	90	\$45,218,063
2003-04	0	0	93	\$41,080,006

Our review of church and religious exemption claims found that they were properly processed. We found no problems with the assessor's church and religious exemption programs.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the Board and county assessors. The Board is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* (OCCs) to qualified organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the Board; and, if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner, then it must also hold a valid

Supplemental Clearance Certificate (SCC) issued by the Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the Board has issued an OCC or SCC to the claimant.

The following table shows the number of properties and the amount of assessed value exempt under the welfare exemption for recent years:

ROLL YEAR	WELFARE	VALUE
2007-08	68	\$69,957,288
2006-07	83	\$96,394,622
2005-06	80	\$95,824,226
2004-05	69	\$77,343,768
2003-04	70	\$74,592,020

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We also reviewed claims for low-income housing property, including property owned by a limited partnership holding an SCC. Our review indicates that the assessor is properly administering the welfare exemption.

Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218, exempts \$7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or the veteran's unmarried surviving spouse). The amount of exemption is \$100,000; however, for qualifying low-income disabled veterans, the amount of exemption is \$150,000. Both these amounts are adjusted annually by a cost of living index.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. The disabled veterans' exemption at the \$100,000 basis requires a one-time filing; annual filing is required for these exemptions at the \$150,000 basis.

The assessor processed 16,672 homeowners' exemption claims and 177 disabled veterans' exemption claims for the 2007-08 assessment roll.

The following table illustrates the number of homeowners' and disabled veterans' exemptions granted in Sutter County and their corresponding values taken from assessment rolls for recent years:

ROLL YEAR	HOMEOWNERS'	VALUE	DISABLED VETERANS'	VALUE
2007-08	16,672	\$116,514,180	177	\$17,482,395
2006-07	16,274	\$113,624,258	172	\$16,151,905
2005-06	15,511	\$108,199,326	168	\$15,238,273
2004-05	15,302	\$106,862,066	165	\$14,673,471
2003-04	15,113	\$105,374,038	141	\$11,989,579

Our review of the homeowners' and disabled veterans' exemption records in Sutter County indicates that the assessor is properly processing these exemptions.

Racehorse Administrative Tax

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 and 1046. Rule 1045(c) requires the assessor to furnish Board-prescribed forms to racehorse owners for reporting the in-lieu tax.

Racehorses within the state are registered with the State Horse Racing Board. According to section 5703, the term "racehorse" means a live horse, including a stallion, mare, gelding, ridgeling, colt, filly, or foal, that is or will be eligible to participate in a horseracing contest in California wherein pari-mutuel racing is permitted. The term also includes any horse that may produce foals that will be eligible to participate in a horseracing contest.

For the 2007-08, the assessor identified two breeders owning 27 racehorses in Sutter County. The assessor maintains a file of racehorse owners and sends racehorse tax return forms annually to owners reporting in prior years. Newly discovered racehorse owners are added to the assessor's file and mailed form BOE-571-J, *Annual Racehorse Tax Return*. In addition, the assessor sends appropriate tax report forms to horse boarding facilities that have reported domicile changes. The assessor forwards copies of these records to the county tax collector as required by Rule 1045(c)(2).

We found no problems with the assessor's racehorse administrative tax program.

Assessment Forms

Government Code section 15606 requires the Board to prescribe and enforce the use of all forms for the assessment of property for taxation. For the 2007 lien date, the Board prescribed 80 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor may not change, add to, or delete the specific wording in a prescribed

form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the Board for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

To enforce the use of prescribed forms, the Board annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the Board copies of the final prints of all prescribed forms they intend to use.

Of the 80 Board-prescribed forms for the 2007 lien date, the assessor used 65. The assessor also used 14 locally developed forms to assist him in his assessment duties. We found no problems with the assessor's assessment forms procedures.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as properties subject to California Land Conservation Act contracts or taxable government-owned properties.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, adjusted annually for inflation by a factor not to exceed two percent.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The Sutter County Recorder electronically transmits all recorded documents daily to the assessor. An assessment technician is responsible for screening all recorded documents for potential changes in ownership and coding each recorded document that evidences an assessable change in ownership. Recorded documents that create lot line adjustments, lot splits, or other newly created parcels are forwarded to the assessor's mapping section for disposition. The mapping section also verifies the parcel numbers and the legal descriptions on all deeds.

For all assessable changes in ownership, the office support staff pulls the appraisal file, attaches all relevant documents, and forwards the package to the appraisal staff to be worked. If a transfer document indicates that a sale involved unusual financing, a trade, or included personal property, then the appraiser responsible for the file would investigate further to determine if a cash equivalency adjustment is warranted. Once the appraisal has been completed, the appraiser forwards the file for review and data input.

The following table shows the total number of recorded documents received and those that were determined to evidence reappraisable events for recent roll years:

ROLL YEAR	DOCUMENTS RECEIVED	REAPPRAISABLE EVENTS
2007-08	7,351	4,178
2006-07	10,720	4,373
2005-06	11,455	3,901
2004-05	8,468	2,901

Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), is available at the public counter of both the assessor's and recorder's offices. The recorder requires that a PCOR be submitted with any transfer documents at the time of recordation. Failure to file a PCOR results in a \$20 fee. Over the past several years, approximately 90 percent of the deeds received from the recorder's office have been accompanied by a PCOR.

Where a PCOR is incomplete or not submitted at the time of recording, the assessor sends the taxpayer form BOE-502-AH, *Change of Ownership Statement* (COS). If the COS is not returned timely, a penalty is applied pursuant to section 482.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of changes in control of legal entities, and thus, no corresponding recorded notice of any real property transfers.

To help assessors, the Board's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property involved. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

We reviewed the assessments of a number of properties owned by legal entities that were reported by the Board to have experienced a change in control within the last few years. When the assessor receives the LEOP listing from the Board, the assessor reviews the list, identifies the

parcels, and updates the computer database with the transfer information. The assessor properly and promptly revalued all parcels owned by legal entities that experienced a change of control.

Section 69.5 Base Year Value Transfer

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement dwelling of equal or lesser value, provided the property owner is at least 55 years of age, the owner files a claim timely, and the properties are within the same county.

Sutter County has very few section 69.5 base year value transfer claims filed each year.

The following table shows the number of section 69.5 claims for recent years:

ROLL YEAR	CLAIMS
2007-08	10
2006-07	8
2005-06	3
2004-05	1
2003-04	2

We reviewed the most recent base year value transfer claims and found all procedures and practices to be in compliance. In addition, the assessor prepares and submits to the Board quarterly reports as required by section 69.5(b)(7).

Section 63.1 Exclusions

Section 63.1 excludes from the definition of change in ownership the purchase or transfer of principal residences and the first \$1 million of other real property between parents and their children. Certain transfers from grandparents to their grandchildren are also excluded.

The following table shows the number of section 63.1 claims for recent years:

ROLL YEAR	CLAIMS
2007-08	148
2006-07	196
2005-06	141
2004-05	178

We reviewed several claims and found no problems with the assessor's processing of 63.1 claims.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

Discovery

Building permits are the assessor's primary means of discovering assessable new construction. The assessor receives building permits from three permit-issuing agencies: the Sutter County Department of Community Services, the Yuba City Community Development Department, and the Live Oaks City Building and Code Enforcement Department. The assessor also discovers new construction through field canvassing and by reviewing business property statements. Once a month, the assessor receives hard copies of all building permits issued by the permit-issuing agencies since the prior month.

The following table shows the total number of permits worked by the assessor in recent years:

BUILDING PERMITS WORKED BY ROLL YEAR					
AGENCY	2007-08	2006-07	2005-06	2004-05	2003-04
Yuba City	1,383	2,451	2,962	141	1,942
Live Oak	178	555	421	176	132
County Of Sutter	556	704	784	933	781
Total	2,117	3,710	4,167	1,250	2,855

All permits are reviewed. For those that will not cause a reassessment (e.g., permits for maintenance items or repairs), such permits are culled and noted in the appraisal file. For those that will result in assessable new construction, staff enters the permit data into the computer system.

Valuation

The assessor values new construction at its full cash value as of the date of completion. The assessor's primary approach to valuing residential new construction is the cost approach; however, the assessor also considers the comparative sales and income approaches when valuing residential new construction. The assessor also uses the following cost guides: the Assessors' Handbook Section 531, *Residential Building Costs*, and the *Marshall Valuation Service*. The assessor adds imputed interest, where appropriate, when using the cost approach.

To obtain owner's cost information, the assessor sends owners a *Property Owner's Statement of New Construction and Cost Questionnaire* for residential properties or a *Commercial New Construction Questionnaire* for commercial/industrial properties. All data obtained from the questionnaires is compared with the cost guides. Field inspections are also conducted for most new construction. However, simple, low-cost projects are only desk-reviewed. An appraisal aide is responsible for preparing electronic sketches of new construction and placing them in the hard copy property records.

We reviewed the records of a number of properties with new construction and found the assessor appraised construction in progress at its fair market value as of the lien date for every lien date that the construction was in progress, appraised completed new construction as of the date of completion, and applied the appropriate supplemental assessments based on the completion date. We found no problems with the assessor's new construction program.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.

For the 2007-08 roll year, there were 269 properties in Sutter County with assessed values below their FBYV.

The following table shows the number of properties that had declines in value for recent years:

ROLL YEAR	PROPERTIES	REDUCTION IN ROLL VALUE
2007-08	269	\$15,456,002
2006-07	158	\$12,223,431
2005-06	306	\$19,695,059
2004-05	504	\$31,722,879

The assessor does not have a formal program for discovering declines in value. He becomes aware of declines in value from taxpayer requests for appraisal review. Taxpayers can initiate an assessment review by filing a *Request For Property Review* form, which is available at the

public counter. After completing the appraisal review, if the appraiser determines that a reduction in the assessed value is warranted, the assessor notifies the taxpayer and keys the reduced values into the computer database.

Another means that the assessor uses to discover declines in value is appraiser knowledge of value trends within the county. If the assessor is aware that a downward value adjustment is warranted, the adjustments are made without requiring the taxpayer to request an appraisal review.

A *Notification of Assessed Value Change* is mailed to the property owner showing the current FBV and the enrolled market value. The notice informs the property owner of his or her appeal rights and conforms to the requirements of section 619.

Properties in decline-in-value status are tracked in the computer database with a specific code to ensure that they are annually reviewed to determine their current market value. We reviewed a number of decline-in-value properties and found the assessor annually reviewed the value for each property in compliance with section 51(e). The assessor has an effective program for declines in value.

Supplemental Assessments

Sections 75 through 75.80 mandates that the assessor enroll supplemental assessments for changes in ownership and the completion of new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completion of new construction occurs between January 1 and May 31, then two supplemental assessments will result from the same event: one for the remainder of the current fiscal year, and another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or upon completion of new construction. In addition, the assessor processes all supplemental assessments regardless of the dollar amount.

After an appraisal has been completed, the file is forwarded for review and data entry. After data entry, the computer system calculates the supplemental assessment and generates a notice to the taxpayer.

Sutter County has not adopted a resolution pursuant to section 1605(c); accordingly, the assessor uses form BOE-67-A, *Notice of Supplemental Assessment*, to advise assesseees of impending supplemental assessments. The notice includes all of the information required by section 75.31.

Supplemental assessment information is then forwarded to the county auditor-controller for billing. Supplemental tax bills that are \$10 or less are cancelled by the county auditor-controller, as allowed by section 75.41(d).

We reviewed several enrolled supplemental assessments and found that supplemental assessment calculations, prorations, and billings were correct. The assessor correctly issues two supplemental assessments whenever there is a change in ownership or completion of new construction that occurs on or after January 1, but on or before May 31. The assessor also correctly applies the inflation factor to the new base year value on the January 1 following the change in ownership or completion of new construction that occurred between January 1 and June 30 of the preceding year (as required by section 75.18), correctly applies the statute of limitations for processing supplemental assessments, and grants the builders' exclusion authorized in section 75.12 when timely claims are submitted.

With the exception of taxable possessory interests, we found no problems with the assessor's supplemental assessment program for most property types. A recommendation is made for a revision to the supplemental assessment program under the taxable possessory interest section contained later in this report.

California Land Conservation Act Properties

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

Sutter County has a total of 371,964 acres (approximately 96 percent of the county land area) in some form of agricultural production. Agricultural production in Sutter County is diversified, consisting of field crops, seed crops, vegetable crops, fruit and nut crops (trees), grazing, nursery products, apiary products, and livestock products. Rice, walnuts, peaches, dried plums, and almonds are the leading agricultural commodities in the county.

The Sutter County Board of Supervisors adopted Resolution 00-073 on September 26, 2000, creating CLCA zoning to preserve its agricultural land base. For the 2007-08 assessment roll, Sutter County had 526 parcels comprising 63,115 acres under CLCA contract. The total assessed value for land and living improvements under CLCA contract was \$114,753,921. The CLCA contract does not allow for the restricted assessment of nonliving improvements, but does specify what compatible uses are allowed on land restricted under CLCA contract.

Currently, there are approximately 150 acres in nonrenewal status (wherein either party to the CLCA contract, government agency or landowner, has served a notice of withdrawal from the contract). We reviewed a number of parcels in nonrenewal status and found that the assessor is following the valuation procedure applicable to land subject to a terminating restriction as provided in section 426.

The valuation of all agricultural properties in Sutter County, including CLCA properties, is the responsibility of four real property appraisers.

Each year the assessor, using an Excel worksheet, calculates the restricted value of the land and any living improvements. In calculating the restricted value for land, section 423(a)(1) requires the assessor to capitalize an annual income determined from market rents, imputed to the land being valued, based upon rents actually received and typical rents received in the area for land in similar use.

In Sutter County, the land rent, cash or share, used by the assessor is dependent upon what is typical for that particular land use, e.g., orchard, row crop, or grazing. Income and operating expenses are estimated using information submitted by the property owners and data provided in the county crop reports. The assessor correctly estimates the income stream for living improvements by utilizing an inclining-stable-declining income approach. In addition, any income from compatible uses of the property is included in the income approach.

The resulting restricted value is then compared to the factored base year value and the current market value. The lowest of the three is enrolled as the assessed value. Any non restricted land, such as homesites, and non living improvements are valued at the lower of their factored base year value or current market value and added to the assessed value of the restricted property to arrive at the total assessed value. In addition, the assessor properly exempts trees planted in orchard form and vines in vineyard form for four years and three years respectively after the season of planting in accordance with article XIII, section 3(i) of the California Constitution.

We have no recommendations for the assessor's program for the assessment of CLCA properties.

Taxable Government-Owned Properties

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11 provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

In Sutter County, there were 129 taxable government-owned properties on the 2007-08 assessment roll with a total assessed value of \$5,686,949.

Each appraiser is responsible for the assessment of taxable government-owned properties located in his or her area of responsibility. Each year, the assessor determines the restricted value,

current market value, and factored base year value for each taxable government-owned property and enrolls the lowest of the three values.

To verify that properties owned by public agencies are taxed if situated outside that agency's boundaries, we reviewed a sampling of government-owned properties with a zero roll value to confirm that the properties were not located outside that agency's boundaries. We found the properties reviewed were being properly assessed.

In our 2003 survey, we recommended the assessor correctly establish the base year value for all taxable government-owned properties. Since the assessor has not implemented this recommendation, it is repeated below.

RECOMMENDATION 1: Establish base year values for taxable government-owned properties according to Board guidelines.

The assessor establishes all base year values of taxable government-owned properties at the time of acquisition at the current market value. This procedure does not fully comply with Board guidelines.

Letter To Assessors 2000/037, entitled *Guidelines for the Assessment of Taxable Government-Owned Properties*, provides that base year values for taxable government-owned properties acquired after March 1, 1975, are to be established at either the lower of current market value or "the value determined by applying the Phillips factor to the 1967 assessed value."

The assessor's practice has resulted in overassessments of taxable government-owned properties because, in most cases, at the time of transfer, the restricted value determined by applying the 1967 Phillips factor is lower than the current market value.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For the 2007-08 assessment roll, the assessor enrolled 197 taxable possessory interests with a total assessed value of \$15,228,029. One real property appraiser is responsible for the assessment of all taxable possessory interests. A separate folder, showing the land and improvements value, is maintained for each taxable possessory interest. Taxable possessory interests are assigned a separate account number and are enrolled on the unsecured roll.

The appraiser maintains a spreadsheet of all taxable possessory interests being assessed in the county. Each year, the public owners are contacted to obtain updated usage information.

Sutter County values and enrolls all taxable possessory interests, but issues tax bills, in accordance with its low-value property exemption, only for those that have a value greater than \$3,000. Once a base year value has been established for a taxable possessory interest, for subsequent roll years, the assessor enrolls the lower of the current market value or factored base year value.

We noted one area needing improvement in the assessor's program for assessing taxable possessory interests.

RECOMMENDATION 2: In accordance with section 75.5, exclude from supplemental assessment taxable possessory interests created by month-to-month agreements having a full cash value of \$50,000 or less.

The assessor makes supplemental assessments on all taxable possessory interests with a base year value of \$3,000 or more, including those established by a month-to-month agreement.

Section 75.5(b) excludes from supplemental assessment any newly created taxable possessory interest that is established by a month-to-month agreement that has a full cash value of \$50,000 or less. The assessor's policy is contrary to statutory provisions.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on form BOE-571-L, *Business Property Statement*, coordination between the real property and business property staff of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance, and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

In Sutter County, the real property and business property divisions use a three-part routing form for referring information between them regarding leasehold improvements. The form can be originated by any appraiser and it allows the assessor to track the progress and assessment of leasehold improvements by the appropriate divisions to minimize the likelihood of assessable items either escaping assessment or being doubled assessed.

Responsibility for the assessment of leasehold improvements varies depending on the circumstances. The primary discovery tool for leasehold improvements is a review of business property statements, building permits, commercial and industrial leases, and new business licenses.

The assessor classifies leasehold improvements as either structural improvements or fixtures. Leasehold improvements classified as structural improvements are treated like real property and assessed at the lower of their factored base year value or current market value on the unsecured roll. Leasehold improvements classified as fixtures are assessed by the auditor-appraisers and placed on the unsecured roll.

When leasehold improvements are abandoned, the business property division deactivates the unsecured account and notifies the real property division to determine if any additional value should be added to the real property for the abandoned leasehold improvements.

Supplemental assessments are applied to structural leasehold improvements assessed on the unsecured roll. Unsecured improvements classified as fixtures are not supplementally assessed, unless they are part of a larger appraisal unit. Leasehold improvements are reviewed annually to ensure all assessable components are valued appropriately.

We found no problems with the assessor's valuation of leasehold improvements.

Water Company Properties

Taxable water company properties may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

There are no private water companies regulated by the California Public Utilities Commission (CPUC) owning property in Sutter County. However, there are approximately 40 private water systems not regulated by the CPUC operating within the county. We reviewed several assessments of properties owned by these companies and found that the assessor correctly valued them.

There are ten mutual water companies providing water in Sutter County. These companies do not deliver water to any outside entities for profit. The values of the mutual water companies' properties were correctly reflected in the assessments of the parcels served by the water systems.

In our review, we discovered five municipal water systems within Sutter County. We found the parcels owned by the municipal water systems that were located within the city limits or district boundaries were correctly exempted from taxation under article XIII, section 3(b) of the California Constitution. Five parcels, with well sites, tanks, and associated improvements, located outside of their respective community service district boundaries, were properly classified and assessed as taxable government-owned property.

Mineral Properties

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties. There are no geothermal properties in Sutter County.

Sutter County is the sixth largest producer of natural gas in the state. There are approximately 200 producing wells with a 2007-08 roll value of \$176,764,000. There is also one active mining property in Sutter County with a 2007-08 roll value of \$5,069,000.

The assessor uses the services of a contract appraiser to appraise all assessable mineral property located in Sutter County. Duties performed by the contract appraiser include collecting the annual production filings for mineral properties, tracking and valuing changes in ownership of mineral properties, and valuing new construction on mineral properties.

We found no problems with the assessor's program for the assessment of mineral property.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the Board from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the Board's constitutional authority.⁵ The court ruled that while the pipelines themselves are properly assessed by the Board, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, governing the valuation of intercounty pipeline lands and rights-of-way.

The assessor has one pipeline right-of-way assessment on the 2007-08 roll with a total assessed value of \$173,269.

For the valuation of pipeline rights-of-way prior to the court decision, the Board developed density classifications for appraisal purposes. Assessors have generally adopted this methodology. Should an assessor use different classifications or associated values, the assessor loses the benefit of a statutory presumption of correctness. The Sutter County Assessor uses the Board's low density classification for the valuation of the pipeline right-of-way.

We checked the current roll values and confirmed that the values have been correctly factored from their 1975 base year. In addition, the pipeline assessee files reports with the assessor on form BOE-571-RW, *Right-of-Way Property Statement*, pursuant to section 441.

The assessor properly administers the right-of-way assessment program.

⁵ *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

The assessor's staff assigned to the business property program consists of six positions, including the chief appraiser, three auditor-appraisers, and two assessment technicians.

In this section of the survey report, we review the assessor's programs for conducting audits; processing business property statements; valuing business property; discovering and assessing leased equipment; and assessing manufactured homes, aircraft, and vessels.

Audits

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

The following table shows the total number of audits completed for recent years:

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS
2005-06	78	31	47
2004-05	92	40	52
2003-04	98	31	67

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more for four consecutive years.

The assessor has a current workload of approximately 30 mandatory audit accounts each year. We found that the assessor is current on his mandatory audits. As part of his audits, he performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment. In all cases, the audits that

were completed were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

The assessor also performs nonmandatory audits as needed. The audits may be at the request of the taxpayer or based on information received from another governmental agency. We reviewed a number of nonmandatory audit files and found them to be accurate and well documented.

Business Property Statement Processing

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, and agricultural property, vessels, and both general and certificated aircraft.

Workload

The following table displays the number of property statements reviewed by the assessor's office for the following types of properties leased equipment, vessels, aircraft, and other personal property and their assessed values for the 2007-08 assessment roll:

PROPERTY STATEMENTS		SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
General Business	1,587	\$193,340,570	\$291,257,417	\$484,597,987
Agriculture	940	\$57,194,114	\$49,223,301	\$106,417,415
Apartments	57	\$165,009	\$0	\$165,009
Direct Billing	664	\$1,691,853	\$2,933,648	\$4,625,501
Financial	24	\$1,214,855	\$1,494,054	\$2,708,909
Leased Equipment	242	\$30,874	\$29,955,568	\$29,986,442
Service Stations	71	\$11,902,429	\$5,903,018	\$17,805,447
Others	3,514	\$0	\$132,461,888	\$132,461,888
TOTAL	7,099	\$265,539,704	\$513,228,894	\$778,768,598

Discovery

The assessor has an efficient discovery program. Taxpayer self-reporting is the principal means of discovering assessable business property. Other means of discovery used by the assessor include reviewing business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories, referrals from other counties, and Board notifications. We found that the assessor employs effective methods for discovering business personal property.

Direct Billing

Many assessors utilize a "direct billing" or "direct assessment" program. It is a program of assessing certain smaller business accounts without requiring the annual filing of a business property statement. Based on the information received from the taxpayer, a new assessed value is enrolled. Examples of businesses suitable for direct billing are small apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, small restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be annually processed by the assessor.

In Sutter County, there were 664 direct billing accounts for the 2007-08 roll year. The assessor's guidelines for the direct billing program are as follows: (1) the cost of assets must be under \$25,000; (2) the property must have a history of asset stability; and (3) the taxpayer must be scheduled to receive a property statement every four years. Taxpayers are removed from this program if they fail to file in the fourth year, if the cost of assets exceeds \$25,000, or if, in the opinion of the auditor-appraiser, it is otherwise warranted.

We reviewed the assessor's business property statement processing program, including a sample of direct billing accounts, and have no recommendations for this program.

Business Equipment Valuation

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the Board shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the Board annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over their service lives. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment. The proper choice and application of valuation factors to historical cost produces a reasonable estimate of market value.

The following table displays the assessor's current secured and unsecured business property assessments assessed on the 2007-08 assessment rolls:

ROLL YEAR 2007-08						
CATEGORY	SECURED	ASSESSED VALUE	UNSECURED	ASSESSED VALUE	TOTAL	ASSESSED VALUE
Commercial	1,541	\$44,494,084	2,666	\$531,320,864	4,207	\$476,269,948
Industrial	34	\$48,111,252	50	\$25,147,535	84	\$73,258,787
Agricultural	695	\$57,194,114	245	\$49,223,301	940	\$106,417,415
Construction	18	\$3,010,579	82	\$1,642,510	100	\$4,653,089
Vessels	0	\$0	2,814	\$20,567,132	2,814	\$20,567,132
General Aircraft	0	\$0	167	\$14,334,214	167	\$14,334,214

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA.) Those price indices generally parallel the indices published in AH 581. We have no recommendations for this program.

Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property on the BPS. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

One auditor-appraiser is responsible for the assessment of leased equipment. The auditor-appraiser reviews all business property statements that contain leased equipment information to ensure that the leased equipment is not being doubly assessed. The auditor-appraiser also reviews all lease terminations to determine the disposition of the leased equipment. When a lessee obtains ownership and retains possession of equipment at the end of the lease, the equipment is assessed to the lessee.

We reviewed the assessor's procedures for assessing leased equipment, along with a sample of lessor and lessee records. The assessor has an effective program for the discovery, processing, tracking, and cross-checking of leased equipment.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

For the 2007-08 assessment roll, there were 21 mobilehome parks and 832 manufactured homes in Sutter County with an assessed value of \$30,976,842. The majority of manufactured homes can be found in the 21 mobilehome parks throughout Sutter County. Each manufactured home is assigned its own assessment number and a use code to identify the property as a manufactured home. For manufactured homes on land owned by the homeowner, a "T" or a "Z" is placed after the parcel number. Manufactured homes in Sutter County are classified as personal property and enrolled on the secured roll.

The following table summarizes the total number of manufactured homes enrolled and their total value for recent years:

ROLL YEAR	MANUFACTURED HOMES	VALUE
2007-08	832	\$30,976,842
2006-07	870	\$29,334,719
2005-06	848	\$25,489,811
2004-05	830	\$22,212,010

The assessor learns of new taxable manufactured homes, sales, new installations, and voluntary conversions of manufactured homes through periodic State Department of Housing and Community Development listings. This discovery program is supplemented by dealer reports of sales, building permits, deed recordings, form BOE-502-A, *Preliminary Change of Ownership Report*, and periodic receipt of tax clearance notifications from the county treasurer and tax collector's office.

An appraisal aide is responsible for the initial valuation of all manufactured homes. All manufactured home assessments are reviewed by the chief appraiser before they are enrolled. When a manufactured home sells, the assessor enrolls the sales price. The value indicated by the factors in the Assessors' Handbook Section 531.35 is used to verify that the sales price is within an acceptable range of market value.

We reviewed a number of manufactured home assessments and found them to be well documented.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (the difference between general aircraft versus certificated aircraft is discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the Board. Section 5364 requires the Board to establish such standards. On January 10, 1997, the Board approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2007-08 assessment roll, the assessor enrolled 167 general aircraft with a total assessed value of \$14,334,214.

In Sutter County, an assessment technician III is responsible for the discovery and initial valuation of all aircraft. All aircraft assessments are reviewed and approved by an auditor-appraiser. The assessor discovers aircraft through reviews of airport manager hangar reports and airport operator tenant lists, referrals from other counties, Federal Aviation Administration reports, and field inspections.

Each year, known owners of aircraft in the county are requested to report certain information on their aircraft, including added or removed equipment, engine air hours since last major overhaul, date of last overhaul, overall condition, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the requested information, the assessment technician incorporates adjustments for overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul to determine a market value estimate.

We found procedures for the assessment of aircraft to be correctly administered and the estimates of value to be properly calculated.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as: (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the

initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

For the 2007-08 assessment roll, there were six aircraft in Sutter County eligible for the historical aircraft exemption. We found that each historical aircraft file contained the required affidavits and certificates of attendance describing the names and locations, dates, and times of the events where the aircraft was on display.

We found no problems with the assessor's program for the assessment of historical aircraft.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include State Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

For 2007-08 roll year, the assessor enrolled 2,814 vessels with a total assessed value of \$20,567,132. The assessor discovers assessable vessels from a review of DMV reports, referrals from other counties, and from property statements.

The following table shows the number of vessels assessed in Sutter County and their corresponding assessed values for recent years:

ROLL YEAR	VESSELS	ASSESSED VALUES
2007-08	2,814	\$20,567,132
2006-07	2,782	\$18,303,538
2005-06	2,782	\$15,515,329
2004-05	2,958	\$14,468,242
2003-04	2,960	\$13,452,852

When the assessor first becomes aware of a vessel entering the county, he sends out a locally developed form requesting information on the vessel. If the taxpayer fails to return the locally developed form within 30 days, the assessor will send form BOE-576-D, *Vessel Property Statement*, to the taxpayer. When appropriate, the assessor applies section 463 penalties for late filing or non-filing of Form BOE-576-D.

The assessor appraises vessels with the aid of the *National Automobile Dealer's Association Marine Appraisal Guide*. Sales tax is correctly added to the value of the vessels. Adjustments for vessel condition and for added equipment are made if appropriate.

We found no problems with the assessor's assessment program for vessels.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Sutter County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck

Supervising Property Appraiser

Survey Team Leader:

Ronald Louie

Senior Specialist Property Appraiser

Survey Team:

Jim McCarthy

Senior Petroleum and Mining Appraisal Engineer

John Frank

Senior Specialist Property Appraiser

Teresa Quento

Senior Specialist Property Auditor-Appraiser

Robert Marr

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

David Barbeiro

Associate Property Auditor-Appraiser

Dan Bibb

Associate Property Auditor-Appraiser

Zbigniew Radko

Associate Property Auditor-Appraiser

Andrew Austin

Assistant Property Appraiser

Prubjit Singh

Tax Technician I

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined

in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the Board's comments on the assessor's response, if any, constitute the final survey report.

The Sutter County Assessor's response begins on the next page. The Board has no comments on the response.

OCT 23 2008

County-Assessed Properties Division
State Board of Equalization

ASSESSOR'S OFFICE

(530) 822-7160



COUNTY OF SUTTER

Michael V. Strong, Assessor

October 20, 2008

Dean R. Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Re: Assessment Practices Survey

Dear Mr. Kinnee:

Please accept this as our response, in accordance with Government Code Section 15645, to the 2008 Assessment Practices Survey for Sutter County - as prepared and published by the Board's County-Assessed Properties Division Survey Group. Accordingly, you will find our comments set forth on the following pages, relative to recommendations of the survey report.

We wish to first extend our appreciation to Ms. Sally Boeck and to all those under her very capable supervision, who comprised the Board's survey team. As always, we found the team members to be respectful of our time, mindful of our circumstances, and responsive to our concerns - as well as most pleasant with whom to associate. With only minor exceptions, the process of gathering data for the survey went smoothly and caused insignificant disruption of our operations.

The fact that only *two* recommendations resulted from this survey is a singular and extremely gratifying result. But, moreover, it is a testament to the diligence, integrity, and commitment of the staff in steadfast adherence to mandates of law and uniform standards of practice - ultimately providing the most fair, equitable, and responsive treatment of the taxpaying public.

Therefore, it is to the members of my staff that I hereby dedicate the outstanding result of this assessment practices survey report.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael V. Strong", is written over the typed name.

MICHAEL V. STRONG
Sutter County Assessor

Attachment

SUTTER COUNTY ASSESSMENT PRACTICES SURVEY 2008

COUNTY RESPONSES to BOE RECOMMENDATIONS

RECOMMENDATION 1: Establish base year values for taxable government-owned properties according to Board guidelines.

RESPONSE:

The Board's "guidelines" pertaining to assessment of taxable government-owned properties, pursuant to LTA 2000/037, provide that base year values for properties *acquired after March 1, 1975*, must be based on "the lower of current fair market value as of the date of change in ownership or the 1967 assessed value multiplied by the appropriate Phillips Factor as of the date of change in ownership."

WE DO NOT CONCUR either with this guideline or the above recommendation flowing therefrom.

The Board appears to have drawn its conclusions, at least in part, from the California Supreme Court decision in *City and County of San Francisco v. County of San Mateo, et al.* (1995) 10 Cal.4th 554 (hereafter, *San Mateo*). However, a careful reading of the court's ruling finds no support for the Board's position, insofar as it pertains to the valuation of properties acquired *after* the 1975 lien date.

As is noted in the *San Mateo* decision, Article XIII A, Sec. 2(a), of the California Constitution, provides that:

"[t]he 'full cash value' means the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment."

On the basis of the above provision, the court finds that alternative definitions of "base year value" coexist within the meaning of "full cash value." The court further concludes that the definition found in Revenue and Taxation Code Section 110.1(d), provides that the county assessor's *base year* valuation "*as shown on the 1975-76 roll*" includes Section 11 "Phillips Factor" values, which were enrolled "pursuant to a periodic reappraisal under Revenue and Taxation Code Section 405.5."

Although the court in *San Mateo* does not rule on the matter of post-1975 base year values, it does opine that the *base year value* for "property which is purchased, is newly constructed, or changes ownership after the 1975 lien date" [R&T Section 110.1 (a)(2)] is defined, in accordance with subdivision (b) of Section 110.1, as "[t]he value determined under subdivision (a)" – that is, the *fair market value*.

Accordingly, Section 110.1(a) and (b) *precludes* enrollment of a "Phillips Factor" valuation as the *base year* value for any taxable government-owned property acquired *after March 1, 1975*. The Board's guidelines, therefore, promulgate an erroneous assessment practice.

Thus, the Board's continued assertions that post-1975 base year values for taxable government-owned properties should be predicated upon its directive in LTA 2000/037 are without merit. The "Guidelines" contained therein should be withdrawn or, at minimum, be revised in conformance with the relevant constitutional and statutory provisions, as above cited.

RECOMMENDATION 2:

In accordance with section 75.5, exclude from supplemental assessment taxable possessory interests created by month-to-month agreements having a full cash value of \$50,000 or less.

RESPONSE:

WE CONCUR and have revised procedures to provide for exclusions from supplemental assessments in accordance with Revenue and Taxation Code Section 75.5.